

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name Battle Creek Area Transportation Study		County Calhoun	
Fiscal Year End September 30, 2007		Opinion Date February 8, 2008		Date Audit Report Submitted to State February 12, 2008			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

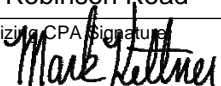
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Rehmann Robson			Telephone Number 517-787-6503	
Street Address 675 Robinson Road			City Jackson	State MI
			Zip 49203	
Authorizing CPA Signature 		Printed Name Mark T. Kettner, CPA, CGFM		License Number 11673

BATTLE CREEK AREA TRANSPORTATION STUDY



Springfield, Michigan

FINANCIAL STATEMENTS

**For the Year Ended
September 30, 2007**



REHMANN ROBSON

Certified Public Accountants

BATTLE CREEK AREA TRANSPORTATION STUDY

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REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**



INDEPENDENT AUDITORS' REPORT

February 8, 2008

Policy Committee
Battle Creek Area Transportation Study
City of Battle Creek, Michigan

We have audited the accompanying basic financial statements of the ***Battle Creek Area Transportation Study*** as of and for the year ended September 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Study's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the ***Battle Creek Area Transportation Study*** as of September 30, 2007, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Study has not presented Management's Discussion and Analysis (MD&A) as required supplementary information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be, part of the financial statements.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the ***Battle Creek Area Transportation Study***. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

FINANCIAL STATEMENTS

Battle Creek Area Transportation Study

Statement of Net Assets

September 30, 2007

Assets

Current assets:

Cash	\$ 25
Accounts receivable	61
Due from grantor agencies	35,128
Due from City of Battle Creek	<u>40,922</u>

Total current assets	76,136
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Capital assets, net	<u>1,212</u>
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Total assets	<u><u>77,348</u></u>
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Liabilities

Current liabilities:

Accounts payable	4,605
Accrued payroll	2,156
Due to grantor agencies	12,915
Accrued compensated absences	<u>4,870</u>

Total liabilities	<u><u>24,546</u></u>
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Net assets

Invested in capital assets	1,212
Unrestricted	<u>51,590</u>

Total net assets	<u><u>\$ 52,802</u></u>
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The accompanying notes are an integral part of these financial statements.

Battle Creek Area Transportation Study

Statement of Activities

For the Year Ended September 30, 2007

Program revenue - operating grants and contributions

Federal grants:	
Federal Highway Administration	\$ 121,368
Federal Transit Administration	24,913
State grant	7,221
Local government contributions:	
City of Battle Creek	22,267
Calhoun County Road Commission	15,618
City of Springfield	2,164
Other revenue	224
	<hr/>
Total program revenue	193,775
	<hr/>

Expenses - transportation studies

Data collection and analysis	43,010
Long range transportation planning	42,413
Short range transportation planning	1,047
Special projects and studies	43,465
Corridor, subarea and project development	392
Public involvement	7,842
Program development and management	48,472
Non-grant activity	2,671
	<hr/>
Total expenses	189,312
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Change in net assets	4,463
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Net assets, beginning of year	48,339
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Net assets, end of year	\$ 52,802
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The accompanying notes are an integral part of these financial statements.

Battle Creek Area Transportation Study

Statement of Cash Flows

For the Year Ended September 30, 2007

Cash flows from operating activities:

Receipts from other governments	\$ 197,901
Payments to employees	(150,897)
Payments to suppliers	<u>(47,004)</u>

Net cash provided by operating activities -

Cash, beginning of year 25

Cash, end of year \$ 25

Reconciliation of operating income to net cash provided by operating activities

Operating income	\$ 4,463
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,283
Changes in assets and liabilities:	
Receivables	4,126
Due from City of Battle Creek	(12,741)
Accounts payable	441
Accrued expenses	(242)
Due to grantor agencies	<u>2,670</u>

Net cash provided by operating activities \$ -

The accompanying notes are an integral part of these financial statements.

BATTLE CREEK AREA TRANSPORTATION STUDY

Notes To Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Battle Creek Area Transportation Study (“Study”) is an intermunicipality committee organized under Michigan Public Act 200 of 1957. The Study’s purpose is to assist in the development and preservation of a safe, effective, well-maintained, efficient, and economical transportation system for the Battle Creek metropolitan area which minimizes its negative impacts on the physical and social environments and related land use. The Study is not a component unit of any other government.

Basis of Accounting

The Study uses a single proprietary or enterprise fund to account for and report its financial activities. The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

The Study follows private-sector standards of accounting and financial reporting issued prior to December 1, 1989, unless those standards conflict with guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Study has elected not to follow subsequent private-sector guidance.

Cash

The Study’s cash consists of \$25 in petty cash on hand. The Study does not maintain its own depository accounts. The City of Battle Creek (a member government of the Study) maintains accounting records, deposits cash receipts and processes cash disbursements through the City’s pooled cash accounts. The amount reported as due from City of Battle Creek at year end represents the balance of the Study’s interest in the pooled cash account of the City at year end.

Capital Assets

Equipment is recorded at cost and is depreciated using the straight-line method over estimated useful lives of three to five years.

BATTLE CREEK AREA TRANSPORTATION STUDY

Notes To Financial Statements

Compensated Absences

It is the Study's policy to permit employees to accumulate earned but unused vacation leave pay benefits up to a maximum of fifteen days or the equivalent of three normal work weeks beyond the current year's allocation. All vacation pay is accrued when incurred since 100 percent of the unused benefits are payable upon employee separation from service with the Study.

2. DUE FROM/TO GRANTOR AGENCIES

Amounts reported as due from and due to grantor agencies represent the difference between costs eligible for reimbursement and the amount received to date. The details of amounts due from and due to grantor agencies are as follows:

	Due from Grantor Agencies	Due to Grantor Agencies
FHWA, Section 112		
Billed	\$ 22,765	\$ -
2003 cost settlement	-	786
2004 cost settlement	3,276	-
2005 cost settlement	-	3,123
2006 cost settlement	-	3,453
2007 cost settlement		2,147
Total FHWA, Section 112	26,041	9,509
FTA, Section 5303		
Billed	\$ 4,865	\$ -
2003 cost settlement	-	197
2004 cost settlement	708	-
2005 cost settlement	-	632
2006 cost settlement	-	757
2007 cost settlement		446
Total FTA, Section 8	5,573	2,032
MDOT, M-Fund		
Billed	\$ 3,276	\$ -
2003 cost settlement	-	383
2004 cost settlement	238	-
2005 cost settlement	-	366
2006 cost settlement	-	548
2007 cost settlement		78
Total MDOT - M-Fund	3,514	1,375
Total	\$ 35,128	\$ 12,916

BATTLE CREEK AREA TRANSPORTATION STUDY

Notes To Financial Statements

3. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets, being depreciated - Equipment	\$ 27,020	\$ -	\$ -	\$ 27,020
Less accumulated depreciation for - Equipment	<u>24,525</u>	<u>1,283</u>	<u>-</u>	<u>25,808</u>
Capital assets, net	<u>\$ 2,495</u>	<u>\$ (1,283)</u>	<u>\$ -</u>	<u>\$ 1,212</u>

4. OPERATING LEASES

The Study leases office space from the City of Springfield (a member government of the Study) under an operating lease. The lease is a ten-year non-cancelable operating lease requiring annual payments of \$4,000 through October 2012. The following is a schedule of future minimum lease payments required under this operating lease as of September 30, 2007:

<u>Years Ending September 30</u>	<u>Amount</u>
2008	\$ 4,000
2009	4,000
2010	4,000
2011	4,000
2012	4,000
2013	<u>4,000</u>
Total	<u>\$ 24,000</u>

During the year ended September 30, 2007, the Study had rent expense of \$4,000.

BATTLE CREEK AREA TRANSPORTATION STUDY

Notes To Financial Statements

5. DEFINED CONTRIBUTION PENSION PLAN

The Study provides pension benefits for all of its employees through a defined contribution pension plan. The plan requires the Study to contribute 15% of each qualified employee's base salary to the plan. Plan provisions and contribution requirements are established and may be amended by the Study's Policy Committee. The Study made the required contribution of \$16,841 for the year ended September 30, 2007.

6. RISK MANAGEMENT

The Study is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended September 30, 2007, the Study carried commercial insurances to cover all risks of losses. The Study has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

7. RELATED PARTY TRANSACTIONS

As discussed previously, the Study has entered into certain agreements with member governments as shown below:

City of Battle Creek:

Health and benefits	\$ 13,131
Service fees	3,300
Traffic count activity	3,139
Asset management activity reimbursements	1,869
Mail room postage charges	472
Print shop charges	377

City of Springfield:

Rent	4,000
Copy machine use	465
Internet access	216

Calhoun County Road Commission:

Traffic count activity	4,511
Asset management activity reimbursements	1,209

* * * * *

SUPPLEMENTAL SCHEDULES

Battle Creek Area Transportation Study
Schedule of Expenses by Funding Source - Budget and Actual
For the Year Ended September 30, 2007

Work Element	Description	Federal Highway Administration			
		Section 112 Funds Project Agreement #2006-0001(Z6) (Job#88091)		Local Match	
		Budget	Actual	Budget	Actual
DATA COLLECTION & ANALYSIS					
1.0000	Data Collection and Analysis	\$ 34,716	\$ 24,899	\$ 7,698	\$ 5,521
1.0040	Asset Management MDOT 100% funded	-	-	-	-
	Subtotal	34,716	24,899	7,698	5,521
LONG RANGE TRANSPORTATION PLANNING					
2.0428	2030 Long Range Transportation Plan	31,628	29,508	7,014	6,543
SHORT RANGE TRANSPORTATION PLANNING					
2.0520	Short Range Transit Planning	-	-	-	-
SPECIAL PROJECTS AND STUDIES					
2.0601	Transportation Improvement Program	16,757	15,197	3,716	3,370
2.0618	Coord. with Statewide Planning	5,020	4,794	1,113	1,063
2.0619	Special Studies	1,528	1,438	339	319
2.0641	Safety Conscious Planning	2,916	2,316	647	513
2.0643	Freight Planning	643	214	143	48
2.0645	Air Quality Planning	8,063	5,485	1,788	1,216
	Subtotal	34,927	29,444	7,746	6,529
CORRIDOR, SUBAREA AND PROJECT DEVELOPMENT					
2.0852	I-94 International Trade Corridor	1,529	321	339	71
PUBLIC INVOLVEMENT					
3.0000	Public Involvement	3,911	3,644	867	808
3.0001	Transportation and Safety Education	2,839	1,812	629	402
	Subtotal	6,750	5,456	1,496	1,210
PROGRAM DEVELOPMENT AND MANAGEMENT					
4.0102	Unified Work Program	3,361	3,111	745	690
4.0103	Program Management	31,686	28,629	7,026	6,348
	Subtotal	35,047	31,740	7,771	7,038
TOTAL		\$ 144,597	\$ 121,368	\$ 32,064	\$ 26,912

Federal Transit Administration			
Section 5303 Funds			
Project Agreement			
#2006-001(Z5) (#88100)			
Local Match			
Budget	Actual	Budget	Actual
\$ 5,987	\$ 4,295	\$ 1,497	\$ 1,074
-	-	-	-
5,987	4,295	1,497	1,074
5,455	5,090	1,364	1,272
1,094	838	273	209
4,095	3,712	1,024	928
545	521	136	130
264	248	66	62
713	566	178	142
-	-	-	-
1,391	946	348	237
7,008	5,993	1,752	1,499
-	-	-	-
674	629	169	157
490	312	122	78
1,164	941	291	235
821	760	205	190
7,742	6,995	1,936	1,749
8,563	7,755	2,141	1,939
\$ 29,271	\$ 24,912	\$ 7,318	\$ 6,228

Battle Creek Area Transportation Study
Schedule of Expenses by Funding Source - Budget and Actual (Concluded)
For the Year Ended September 30, 2007

		Michigan Department of Transportation			
		100% Reimbursed Asset Management #2006-0001(Z7)			
Work Element	Description	Totals			
		Budget	Actual	Budget	Actual
DATA COLLECTION & ANALYSIS					
1.0000	Data Collection and Analysis	\$ -	\$ -	\$ 49,898	\$ 35,789
1.0040	Asset Management MDOT 100% funded	20,000	7,221	20,000	7,221
		20,000	7,221	69,898	43,010
LONG RANGE TRANSPORTATION PLANNING					
2.0428	2030 Long Range Transportation Plan	-	-	45,461	42,413
SHORT RANGE TRANSPORTATION PLANNING					
2.0520	Short Range Transit Planning	-	-	1,367	1,047
SPECIAL PROJECTS AND STUDIES					
2.0601	Transportation Improvement Program	-	-	25,592	23,207
2.0618	Coord. with Statewide Planning	-	-	6,814	6,508
2.0619	Special Studies	-	-	2,197	2,067
2.0641	Safety Conscious Planning	-	-	4,454	3,537
2.0643	Freight Planning	-	-	786	262
2.0645	Air Quality Planning	-	-	11,590	7,884
	Subtotal	-	-	51,433	43,465
CORRIDOR, SUBAREA AND PROJECT DEVELOPMENT					
2.0852	I-94 International Trade Corridor	-	-	1,868	392
PUBLIC INVOLVEMENT					
3.0000	Public Involvement	-	-	5,621	5,238
3.0001	Transportation and Safety Education	-	-	4,080	2,604
	Subtotal	-	-	9,701	7,842
PROGRAM DEVELOPMENT AND MANAGEMENT					
4.0102	Unified Work Program	-	-	5,132	4,751
4.0103	Program Management	-	-	48,390	43,721
	Subtotal	-	-	53,522	48,472
TOTAL		\$ 20,000	\$ 7,221	\$ 233,250	\$ 186,641

Battle Creek Area Transportation Study
Schedule of Allowable Costs
(exclusive of costs incurred by local governments)
For the Year Ended September 30, 2007

	<u>Direct</u>	<u>Indirect</u>	<u>Total</u>
Salaries and wages	\$ 64,978	\$ 32,552	\$ 97,530
Fringe benefits	35,394	17,731	53,125
Office supplies	-	1,918	1,918
Printing and copying	-	400	400
Postage	-	472	472
Membership and subscriptions	-	184	184
Professional services	-	364	364
Bookkeeping services	-	3,300	3,300
Training and travel	-	2,433	2,433
Communications	-	2,294	2,294
Insurance and bonds	-	4,054	4,054
Office equipment maintenance	-	378	378
Rent	-	4,000	4,000
Depreciation	-	1,283	1,283
	<u>\$ 100,372</u>	<u>\$ 71,363</u>	<u>\$ 171,735</u>
Other direct costs	<u>\$ 2,452</u>		
Indirect costs as a percentage of direct payroll and fringe benefits		<u>71.099%</u>	
Fringe benefits as a percentage of salaries and wages			<u>54.470%</u>
Fringe benefit detail			
Vacation, sick and holidays	\$ 9,670	\$ 4,845	\$ 14,515
Social security and Medicare	5,712	2,861	8,573
Retirement contribution	11,190	5,606	16,796
Health and welfare	8,271	4,143	12,414
Workers' compensation and unemployment	551	276	827
	<u>\$ 35,394</u>	<u>\$ 17,731</u>	<u>\$ 53,125</u>



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February 8, 2008

To the Policy Committee of the
Battle Creek Area Transportation Study
Springfield, Michigan

We have audited the financial statements of the Battle Creek Area Transportation Study for the year ended September 30, 2007, and have issued our report thereon dated February 8, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated November 13, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Battle Creek Area Transportation Study. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Battle Creek Area Transportation Study are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Battle Creek Area Transportation Study during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable fixed assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Battle Creek Area Transportation Study's financial reporting process (that is, cause future financial statements to be materially misstated). As described in the accompanying memorandum, we proposed numerous material adjusting journal entries, which in our judgment, had a significant effect on the Battle Creek Area Transportation Study's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Battle Creek Area Transportation Study's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum are intended for the use of the Battle Creek Area Transportation Study, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script that reads "Lehmann Johnson". The signature is written in black ink and is positioned below the "Very truly yours," text.

Battle Creek Area Transportation Study

Comments and Recommendations

For the Year Ended September 30, 2007

In planning and performing our audit of the financial statements of the Battle Creek Area Transportation Study as of and for the year ended September 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Study's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Study's internal control. Accordingly, we do not express an opinion on the effectiveness of the Study's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Other Matters

Internal Controls – Segregation of Duties

Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the Study's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the government's unique circumstances.

As is the case with many organizations of similar size, the Study lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Battle Creek Area Transportation Study

Comments and Recommendations (Concluded)

For the Year Ended September 30, 2007

Events of recent years have given rise to a heightened awareness of the risks of fraud and abuse, especially in the governmental environment, where public accountability is at its highest. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitations on the effectiveness of a government's internal controls carries with it a greater risk of fraud and abuse.

As stated previously, the establishing and maintaining of internal controls is the responsibility of management. As the Study's independent external auditors, we are specifically banned by professional standards from performing any management functions. In other words, the annual audit is not a part of the Study's internal control structure, and cannot not be relied upon as part of *management's* systems to deter or detect fraud and abuse.

While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

Audit Adjustments

During our fieldwork, a total of 7 adjusting journal entries were needed in order to create a reasonably adjusted trial balance, including one journal entry to reverse prior year accounts. It is our recommendation that the Study reconcile all general ledger accounts to their proper underlying balances.

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